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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Transport Rate Structure and Pricing	)	CC Docket No. 91-213
	)	
Usage of the Public Switched Network by Information Service and Internet Access Providers	)	CC Docket No. 96-263
	)	

Comments of the
Rural Utilities Service

Introduction

The Rural Utilities Service (RUS) appreciates the opportunity to offer comment to the Commission on access charge reform.

Rural Americans need telecommunications services to help all Americans succeed in the new information and global economy. Successful rural life depends upon access to high quality, affordable local and long distance telecommunications. The RUS (formerly the Rural Electrification Administration) has promoted universal service in rural America for 48 years through targeted lending, technical support and policy guidelines. RUS telecommunications borrowers provide service to 40 percent of the landmass of the country, which is roughly half of the rural portions of the continental United States. The other one-half of the rural portions of the continental United States are currently served by Regional Bell Operating Companies (RBOCs) and larger independents, most of which are price cap companies. In these comments, as in earlier comments on Universal Service (CC Docket 96-45), RUS will address issues of concern to all rural Americans, whether served by RUS borrowers, RBOCs, or other providers.

In reforming access charges, the Commission should not create incentives for lowering the quality, availability, or affordability of services to rural areas. In previous comments on Universal Service, RUS discussed the need for affordable, modern local telecommunications service in rural America.

Access charge reform raises new concerns. If not properly accomplished, either the reduction of, or the improper geographical deaveraging of, access charges could threaten the availability of affordable, high quality toll service in rural America. The Joint Board's November 7, 1996 Recommended Decision suggests support of some network elements that have traditionally been supported through toll revenues. Unless the line of demarcation for cost recovery between local and toll plant is fairly and carefully drawn, the reduction in income and resulting investment may either adversely affect investment or put too much pressure on the universal service support (USS) mechanism.

Any reform of access charges is likely to have a major impact on rural local exchange carriers (LECs). On average, in 1995 RUS borrower LECs received 66% of their total revenues from long distance revenues and the existing Universal Service Fund (USF). RUS estimates that 10 percent of total revenues on average was from the USF, so the average RUS-financed LEC received 56 percent of its revenues from the toll settlements mechanisms (interstate and intrastate). If the incumbent LECs serving sparse rural areas today become financially nonviable, many of their customers will be in trouble as well.

The Rural Guidelines for Access Reform

After viewing access reform through the rural lens, RUS finds four principles of concern to rural users of telecommunications services:

1. Access charge reform must be compatible with Section 254(g) of the Telecommunications Act of 1996 (Act). This section states that providers of interexchange and interstate services shall charge no more to users in rural and high cost areas than they do to other customers.

2. Access charge reform must be seamless with universal service reform and interconnection. The timing of implementation of the trilogy of actions should be coordinated, and so should the applications of cost recoveries and explicit universal service supports. The interests of rural users cannot be allowed to fall between the cracks of the trilogy.

3. Access charge reform must provide adequate incentives for efficient investment.

4. Access charge reform should facilitate competition in all rural and high cost areas allowed by law, but the same access charge reform must work in the absence of competition. Rural and high cost areas may be slow to attract competition for either local exchange service or interexchange services, and some may never attract competition. The

access charge platform chosen through this action must ensure high quality, affordable interexchange service availability to such areas.

RUS offers comments on four issues of importance to rural users.

The Section 254(g) Requirement Is As Important to Rural America as Any Other Portion of Section 254.

Paragraph 63 of the Notice of Proposed Rulemaking (Notice) contemplates forbearance of Section 254(g). The Commission should not forbear. The availability of affordable, high quality long distance service is absolutely essential to rural life. Urban and suburban residents don't have to call long distance to reach the family doctor, the children's school, the place of employment, the auto repair shop, the police, the electric service provider, or the nearest U. S. Government service office, but rural residents often have to. Further, being part of the national and global economies is also a function of cost. Rural economic development depends on eliminating the cost of distance. This is the promise of the information age. Congress recognized the importance of this issue and adopted Section 254(g).

RUS urges the Commission to implement Section 254(g) vigorously.

Geographical Deaveraging of Access Charges Will Create Tension With the Section 254(g) Requirement for Pricing Equity of Interexchange Services

A geographical deaveraging of access charges (paragraphs 63 and 182) which fails to address higher rural costs poses a great threat to the availability of affordable, high quality long distance service in rural America. The Notice asks what will happen if access charges approach cost, while Section 254(g) prevents IXCs from passing that higher cost on to rural users. The access charges an interexchange carrier (IXC) would pay for completing calls would be higher in rural, as opposed to urban and suburban, areas. Since the access charges are a large part of the cost of completing an interexchange call, the cost of completing calls into or out of rural areas would be higher than that of calls within or among urban areas. Because an IXC serving a rural, high cost area could not charge customers more to complete calls under Section 254(g), it would have to absorb the cost of providing service to these areas.

If access charges were strictly deaveraged, with Section 254(g) requiring equal rates, IXCs would pull out of rural areas leading to the development of regional, specialized IXCs, specifically serving rural areas at a higher price. This is not acceptable.

The only way to prevent this is to design access charge reform so that either there are no differences in cost of access (do not deaverage), or provide a support mechanism within access charge reform to remove the incentives for IXCs to avoid higher cost areas. If the Commission finds that geographical deaveraging is necessary, then an efficient support mechanism is essential.

The Costs of Geographical Deaveraging of Access Charges Should Be Met by Providers of Interexchange Services

The pricing parity requirement of Section 254(g) will cost something to achieve. (Continuation of comment on paragraphs 63 and 182, with additional comment on paragraph 61.) IXCs will not choose to lose money so they can serve high cost areas. Access charge reform which meets the Section 254(g) requirement in a geographically deaveraged environment will need a mechanism to bring down the apparent cost of access in high cost areas and/or a method of pooling to share those costs among IXCs.

There may be temptation at this point to look to the USS mechanism recommended by the Joint Board for support. That USS mechanism should not sustain this burden. First, the Joint Board Recommended Decision did not identify a support mechanism that would meet the requirement of Section 254(g). Second, the higher cost access previously discussed is related to only interexchange telecommunications services. Third, under the upcoming jurisdictional separations review a significant portion of current interexchange interstate access costs may be allocated to intrastate telecommunications service providers. Fourth, the wrong set of contributors for high cost access charge cost recovery may fund the USS mechanism. Under the Act, USS will be funded by all telecommunications carriers providing interstate services. The beneficiaries of access charge high cost sharing would be interstate and intrastate IXCs, and these telecommunications carriers should fund the high cost access charge recovery mechanism. (Due to bypass issues and the potential of encouraging inefficient network investment in the interexchange market, portions of high cost access charge recovery may need to be allocated to private networks and Competitive Access Providers.)

Driving Access Charges to Cost Should Be Viewed as the Balancing of the Opportunities and Responsibilities of Two Business Markets

The "cost" of access is a matter of definition and allocation. The debate over how to allocate traffic sensitive and non-traffic sensitive plant between local and interexchange service has no absolute answer. The solution, though, has to achieve the ultimate goals of the Act.

The important objectives in access charge reform are to ensure that all Americans have high quality, affordable access, to support competition in IXC and LEC markets, and to ensure incentives for efficient investment.

Conclusion

Geographical deaveraging of access charges will have to be approached thoughtfully to avoid undermining the intent of Congress stated in Section 254(g). If long distance service pricing follows unadjusted deaveraged access charge costs, rural America may lose a critical resource.

Dated: JAN 29 1997

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